

REPORT BY THE
AUDITOR GENERAL
OF CALIFORNIA

**THE ALAMEDA-CONTRA COSTA TRANSIT DISTRICT:
SIXTH QUARTERLY MONITORING REPORT**

P-861.6

APRIL 1990

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Kurt R. Sjoberg
Acting Auditor General

April 4, 1990

P-861.6

Honorable Elihu M. Harris, Chairman
Members, Joint Legislative
Audit Committee
State Capitol, Room 2148
Sacramento, California 95814

Dear Mr. Chairman and Members:

The Office of the Auditor General presents its sixth quarterly monitoring report concerning the Alameda-Contra Costa Transit District's progress in implementing the recommendations from the Office of the Auditor General's report P-767 entitled "The Alameda-Contra Costa Transit District's Financial and Administrative Controls Need Improvement." The report shows that the district has implemented the recommendations of our March 1988 report. However, while the district balanced its fiscal year 1989-90 budget, to do so, the district postponed programs intended to improve the long-term financial condition of the district.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Kurt R. Sjoberg".

KURT R. SJOBERG
Acting Auditor General

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SUMMARY

RESULTS IN BRIEF

Since March 1988, when we released our initial report about the financial and administrative controls of the Alameda-Contra Costa Transit District (district), the district has taken steps to improve its operations, but it still needs to improve its financial condition. During our review for this report (our sixth monitoring report of the district), we noted the following conditions:

- The district has had operating deficits for three of the last five fiscal years; its expenses have increased at a rate higher than its revenues and subsidies; and its working capital has decreased since fiscal year 1983-84;
- While the district projects that its revised budget for fiscal year 1989-90 will be balanced if it receives \$1.9 million in federal and state earthquake aid, the district has postponed programs intended to improve its financial condition and eliminated staff positions in the attempt to balance its budget; therefore, the district's financial condition does not appear to be improving;
- The actions the district took to develop a balanced budget in fiscal year 1989-90 were the result of several factors including at least \$1.9 million in reported expenses as a result of the October 1989 earthquake;
- The reviewer of the district's initial claim for federal aid for the costs the district incurred as a result of the earthquake recommended that the claim be denied, and it is not known if or when the district will receive federal or state relief funds;
- The district is in substantial compliance with its policies for the reimbursement of travel and personal expenses; and

- The district has disseminated its policy prohibiting the use of district resources for nondistrict purposes.
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BACKGROUND

As required by Chapter 1147, Statutes of 1988, this is the sixth quarterly monitoring report on the actions that the district has taken to correct deficiencies noted in our report entitled "The Alameda-Contra Costa Transit District's Financial and Administrative Controls Need Improvement," Report P-767, March 1988.

The district operates over 800 buses that, in fiscal year 1988-89, provided over 55 million passenger trips in Alameda and Contra Costa counties and, to a lesser extent, San Francisco and San Mateo counties. The district's revised budget for fiscal year 1989-90 shows projected revenues and subsidies of \$124.5 million and expected expenses of \$126.4 million, resulting in a possible deficit of \$1.9 million. The district is governed by an elected board of seven directors. The board of directors appoints the officers of the district: a general manager, who is responsible for the operations of the district; a secretary; and an attorney for the district.

During our March 1988 review, we found that the district had insufficient control over its financial operations. From fiscal year 1984-85 through fiscal year 1986-87, the district's expenses exceeded its revenues and subsidies, and as a result, the district incurred large deficits. In addition, the district had weak controls over the travel and personal expenses of its board of directors and officers, which resulted in some overpayments. Finally, five of the district's six full-time, salaried attorneys used district resources to conduct their private law practices.

PRINCIPAL FINDINGS

The Status of the District's Financial Condition

The district has experienced deficits in three of the last five fiscal years, including a \$125,000 deficit for fiscal year 1988-89. Moreover, we found that the district's expenses have increased from fiscal year 1984-85 through fiscal year 1988-89. However, the rate of increase has diminished throughout that period. Although revenues and subsidies have generally increased since fiscal year 1984-85 (except for a slight decrease in fiscal year 1988-89), they have not grown at the same rate as expenses because the revenue from passenger fares has decreased. We also found that the district's working capital has decreased since fiscal year 1983-84. As of December 31, 1989, the district's working capital was \$13.5 million, or the equivalent of just over one month of district operating expenses.

The district projects that it will have a balanced budget for fiscal year 1989-90 if it receives \$1.9 million in federal and state aid for costs incurred as a result of the October 1989 earthquake. However, almost all of the district's departments have had to absorb some part of the cuts the district has made in the attempt to balance its budget. In addition, the district postponed several programs, including the district's comprehensive service plan, which is intended to restructure bus routes and improve the district's long-term financial condition. Further, while it has not cut bus service, the district plans to eliminate 12 positions and has frozen hiring. Therefore, it does not appear that the district's financial condition is improving. The actions the district took were the result of the costs of the October 1989 earthquake, the implementation of a new union contract, cost overruns in maintenance and workers' compensation, and a reduction in revenues and subsidies. On March 2, 1990, the reviewer of the district's initial claim for federal earthquake assistance

recommended that the claim be denied. It is not known if or when the district will receive federal or state aid to offset the \$1.9 million in reported earthquake expenses. While the district has reduced costs in the attempt to balance the budget, the district also needs to consider ways it can finance programs to improve the long-term financial condition of the district. Otherwise, the district's financial condition may not improve.

The Status of the District's Implementation of Our Previous Recommendations

The district has implemented our recommendations from previous reports concerning the improvement of its budgetary process. District staff are developing budget estimates of revenues, subsidies, and expenses that should be more reliable than in the past. The district is promptly and accurately reporting budget variances. The district has received over \$12 million from its share of Measure B funds since we recommended that the district request its share of these funds. Finally, the district projects that it will have a balanced budget for fiscal year 1989-90 if the district receives \$1.9 million in federal earthquake aid.

The district has implemented our recommendations concerning the reimbursement of travel and personal expenses. The district has modified its policies and adopted new policies to include all of our recommended changes. Additionally, we found that the district has been in substantial compliance with its travel and personal expense policies, and since our March 1988 report, the district has recovered all overpayments made to district directors.

Finally, the district has prohibited its attorneys from the private practice of law, and the district has disseminated a policy that prohibits district staff from using district resources for nondistrict purposes.

RECOMMENDATIONS

To improve its long-term financial condition, the Alameda-Contra Costa Transit District should take the following actions:

- Implement its goal of balancing its budget for fiscal year 1989-90 and future years;
 - Continue its efforts to obtain state or federal aid for the expenses incurred as a result of the October 1989 earthquake; and
 - Evaluate ways to finance programs, such as the comprehensive service plan, that are intended to increase district ridership and the district's revenues.
-

AGENCY COMMENTS

The Alameda-Contra Costa Transit District agrees with the findings of our report.

INTRODUCTION

As required by Chapter 1147, Statutes of 1988, this is the sixth quarterly monitoring report on the actions that the Alameda-Contra Costa Transit District (district) has taken to correct deficiencies noted in our report entitled "The Alameda-Contra Costa Transit District's Financial and Administrative Controls Need Improvement," Report P-767, March 1988. (Appendix A contains a summary of our five previous monitoring reports.)

The district operates over 800 buses that, in fiscal year 1988-89, provided more than 55 million passenger trips in Alameda and Contra Costa counties and, to a lesser extent, San Francisco and San Mateo counties. The district, which has its headquarters in Oakland, has over 2,000 employees. The district's original operating budget for fiscal year 1989-90 shows projected revenues and subsidies of \$124.8 million and projected expenses of \$124.8 million, yielding a balanced budget. However, the January revision of the budget for fiscal year 1989-90 shows projected revenues and subsidies of \$124.5 million and expenses of \$126.4 million, resulting in a possible deficit of \$1.9 million. (Appendix B shows a comparison between the district's revised operating budget for fiscal year 1989-90 and its original operating budget for fiscal year 1989-90.)

As specified in the California Public Utilities Code, the district is governed by a board of directors that supervises and regulates every transit facility owned and operated by the district. The board of directors is also responsible for administering the district's affairs and approving the district's budget. The voters of Alameda and Contra Costa counties elect the board's seven directors, who serve four-year terms. The board of directors appoints the officers of the district: a general manager, who is responsible for the operations of the district; a secretary; and an attorney for the district.

During our initial review, the results of which we released in March 1988, we found that the district had several weaknesses in its operations. For example, for fiscal years 1984-85 and 1986-87, the district's expenses had exceeded its revenues, and as a result, the district incurred deficits. We found that the district had insufficient control over its financial operations, with weaknesses in its budgeting process contributing to its financial difficulties. For example, we found that the district generally overestimated its revenues and always underestimated its expenses. Furthermore, the district's monthly budget variance reports contained errors and were not submitted promptly to the board of directors.

We also found that the district had weak controls over the travel and personal expenses of its board of directors and officers,

which resulted in some overpayments. Finally, five of the district's six full-time, salaried attorneys used district resources to conduct their private law practices.

To ensure that the district resolved its fiscal problems, we recommended that the district develop well-documented and reliable budget estimates; develop and promptly submit to the board of directors accurate variance reports; and balance its budget by increasing its revenues, decreasing its expenses, or both. We also recommended that the district recover overpayments made to district directors and that the district develop a policy prohibiting the use of district resources for nondistrict purposes.

As a result of our review, the Legislature enacted Chapter 1147, Statutes of 1988, requiring the Office of the Auditor General to monitor the progress of the district in correcting the deficiencies noted in our March 1988 report. We are required to issue quarterly reports through July 1, 1990.

In our five previous monitoring reports, we reported that the district has improved its budgeting process and that the district's budgets for fiscal years 1988-89 and 1989-90 are better documented and contain more reliable estimates of revenues, subsidies, and expenses. We also reported that the district has implemented new travel and personal expense policies and has recovered overpayments from all of the district's directors.

SCOPE AND METHODOLOGY

The purpose of this review was to monitor the district's operating budget for fiscal year 1989-90 and to follow up on those problems we had identified in our previous monitoring reports. Because this is our next-to-last quarterly monitoring report, we reviewed the status of the district's implementation of all of our recommendations from our March 1988 report and from our previous monitoring reports.

We reviewed the district's January revision of the budget for fiscal year 1989-90. We documented changes between the original budget and the revised budget, especially the postponement of any district programs that were part of the district's original budget. We also reviewed the district's decision to terminate employees and to freeze staff vacancies. We also requested from the district's board of directors specific answers to questions concerning the district's financial policies and goals. We obtained the district's methodology for its calculation of the costs of the October 1989 earthquake. We did not review the denial of the district's claim for federal aid for expenses resulting from the October 1989 earthquake because the denial took place after the end of our fieldwork. We also did not review the effect that not receiving federal aid would have on the district's budget for fiscal year 1989-90. We will review the status of the claim as part of our next monitoring report. Finally, we reviewed the new union contract and its effect on the revision of the district budget. We did not review the district's preparation of its capital budget.

We also reviewed the district's financial status from fiscal year 1984-85 through the district's projected 1989-90 budget. We analyzed the district's revenues, subsidies, expenses, operating surpluses or deficits, and working capital for each of those fiscal years.

As part of our review of the district's implementation of recommendations from our previous reports, we reviewed the district's budget variance reports. We reviewed the reports for both accuracy and timeliness. We also reviewed the district's implementation of our recommendations concerning travel and personal expenses. We obtained and reviewed the district's former and current travel and personal expense policies. In addition, we reviewed all of the director and officer travel and personal expense claims for July 1989 through December 1989. We did not review the district's implementation of two new travel and personal expense policies. In new rules for district directors and officers, which took effect November 29, 1989, the district is allowing for the reimbursement of meals for nondistrict personnel and is allowing, with receipts, reimbursement of meals up to \$60 per day. None of the claims in our review used the new policies, and as a result, we did not review the district's implementation of the new rules.

Finally, we reviewed the district's implementation of our recommendations concerning the prohibition of the use of district resources for nondistrict purposes. As part of this review, we examined attorney adherence to the district's policies.

AUDIT RESULTS

I

A REVIEW OF THE ALAMEDA-CONTRA COSTA TRANSIT DISTRICT'S FINANCIAL STATUS SINCE FISCAL YEAR 1984-85

The Alameda-Contra Costa Transit District (district) has experienced deficits in three of the last five fiscal years, including a \$125,000 deficit for fiscal year 1988-89. Moreover, we found that the district's expenses have increased from fiscal year 1984-85 through fiscal year 1988-89 and are projected to increase in fiscal year 1989-90. However, the rate of increase has diminished throughout that period. Although revenues and subsidies have generally increased since fiscal year 1984-85 (except for a slight decrease in fiscal year 1988-89), they have not grown at the same rate as expenses because the revenue from passenger fares has decreased. We also found that the district's working capital has decreased since fiscal year 1983-84. As of December 31, 1989, the district's working capital was \$13.5 million, or the equivalent of just over one month of district operating expenses.

The district projects it will balance its budget for fiscal year 1989-90 if it receives \$1.9 million in federal and state aid for the costs it incurred as a result of the October 1989 earthquake. However, almost all of the district's departments have had to absorb some part of the cuts the district has made in the attempt to balance its budget. In addition, the district postponed several programs,

including the district's comprehensive service plan, which is intended to restructure service and improve the district's long-term financial condition. Further, while it has not cut bus service, the district plans to eliminate 12 positions and has frozen hiring. Therefore, it does not appear that the district's financial condition is improving. The actions the district took were the result of the costs of the October 1989 earthquake, the implementation of a new union contract, cost overruns in maintenance and workers' compensation, and a reduction in revenues and subsidies. On March 2, 1990, the reviewer of the district's initial claim for federal earthquake assistance recommended that the district's claim be denied. It is not known if or when the district will receive federal or state aid to offset the \$1.9 million in reported earthquake expenses. While the district has reduced costs in the attempt to balance the budget, the district also needs to consider ways it can finance programs to improve the long-term financial condition of the district.

THE STATUS OF THE DISTRICT'S OPERATING BUDGETS SINCE FISCAL YEAR 1984-85

The district projects that it will have a balanced budget for fiscal year 1989-90 if it receives \$1.9 million in federal earthquake aid; however, the district has had operating deficits in three of the last five fiscal years. Table 1 shows the district's revenues, subsidies, and expenses and the extent of the district's actual operating deficits and surpluses for fiscal year 1984-85 through fiscal year 1989-90.

TABLE 1

ALAMEDA-CONTRA COSTA TRANSIT DISTRICT
REVENUES, SUBSIDIES, EXPENSES, AND
OPERATING SURPLUSES AND DEFICITS
FISCAL YEAR 1984-85 THROUGH FISCAL YEAR 1989-90

	Fiscal Year			
	<u>1984-85</u>	<u>1985-86</u>	<u>1986-87</u>	<u>1987-88</u>
Revenues and Subsidies	\$ 98,779,000	\$ 111,333,000	\$ 114,309,000	\$ 122,994,000
Expenses	<u>101,834,000</u>	<u>111,113,000</u>	<u>119,102,000</u>	<u>122,309,000</u>
Surplus (Deficit)	<u>\$ (3,055,000)</u>	<u>\$ 220,000</u>	<u>\$ (4,793,000)</u>	<u>\$ 685,000</u>

Source: Financial Statements of the Alameda-Contra Costa Transit District.

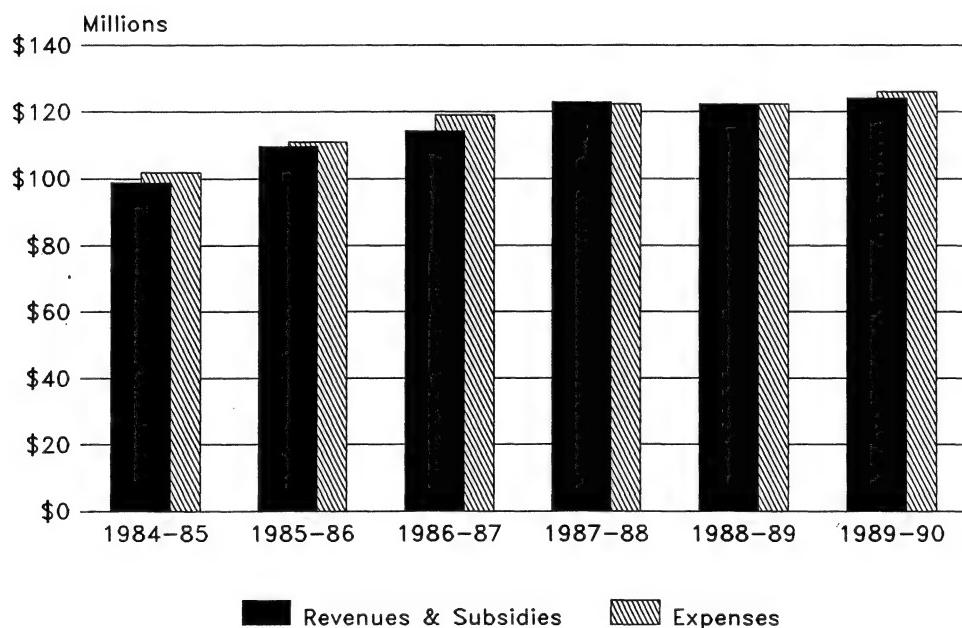
aProjected for fiscal year 1989-90.

**Trends in the District's
Revenues, Subsidies, and Expenses**

Chart 1 shows the district's trend in revenues and subsidies versus its trend in expenses. Revenues include fares collected from passengers (farebox revenue) and interest income. Subsidies are funds provided by federal, state, and local agencies. Expenses are the costs of operating the district and include costs from items such as wages, fringe benefits, and fuel.

CHART 1

**ALAMEDA-CONTRA COSTA TRANSIT DISTRICT
COMPARISON OF REVENUES AND SUBSIDIES WITH EXPENSES
FISCAL YEAR 1984-85 THROUGH FISCAL YEAR 1989-90**



Source: Financial statements of the Alameda-Contra Costa Transit District.

^aProjected for fiscal year 1989-90.

Trends in Expenses

As Chart 1 shows, although the trend in the district's expenses from fiscal year 1984-85 through fiscal year 1988-89 reflects an increase, the rate of increase has diminished, indicating a reduction in the overall growth of expenses. The rate of increase in district expenses was 9.1 percent between fiscal year 1984-85 and fiscal year 1985-86, but since fiscal year 1986-87, the increases in the district's expenses have ranged from 3.3 percent to a low of 0.9 percent.

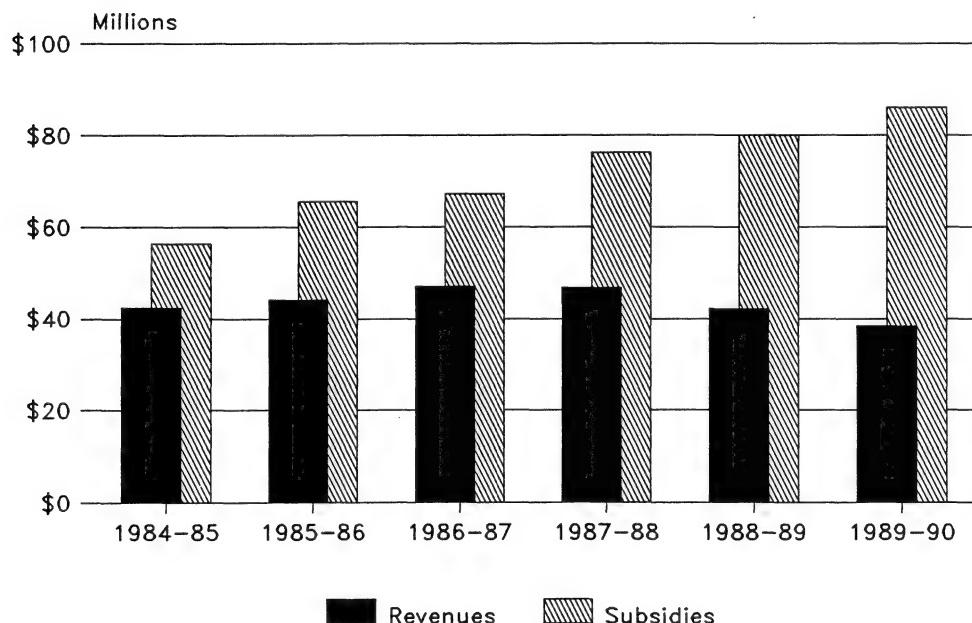
Trends in Revenues and Subsidies

As Chart 1 also shows, the district's revenues and subsidies have followed a pattern similar to the trend for district expenses. The trend in total revenues and subsidies from fiscal year 1984-85 through fiscal year 1987-88 has shown an increase, followed by a slight decrease of 0.6 percent for fiscal year 1988-89. For fiscal year 1989-90, the district projects it will receive a slight increase in revenues and subsidies of about 2 percent. However, as with expenses, the rate of the increase has diminished, reflecting a decrease in the overall growth of revenues and subsidies. The district's revenues and subsidies increased 12.7 percent between fiscal years 1984-85 and 1985-86 and increased 7.6 percent between fiscal years 1986-87 and 1987-88.

Although combined revenues and subsidies have grown, as Chart 2 shows, the district's revenues have decreased. Revenues have decreased because revenue from passenger fares has decreased from \$30.7 million in fiscal year 1984-85 to a projected \$29.0 million in fiscal year 1989-90. Revenue from passenger fares appears to have decreased because the district's ridership has decreased. According to the district, since 1981, the district's ridership has decreased from 84 million passenger trips to just over 55 million passenger trips in fiscal year 1988-89.

CHART 2

ALAMEDA-CONTRA COSTA TRANSIT DISTRICT COMPARISON OF REVENUES AND SUBSIDIES FISCAL YEAR 1984-85 THROUGH FISCAL YEAR 1989-90



Source: Financial statements of the Alameda-Contra Costa Transit District.

^aProjected for fiscal year 1989-90.

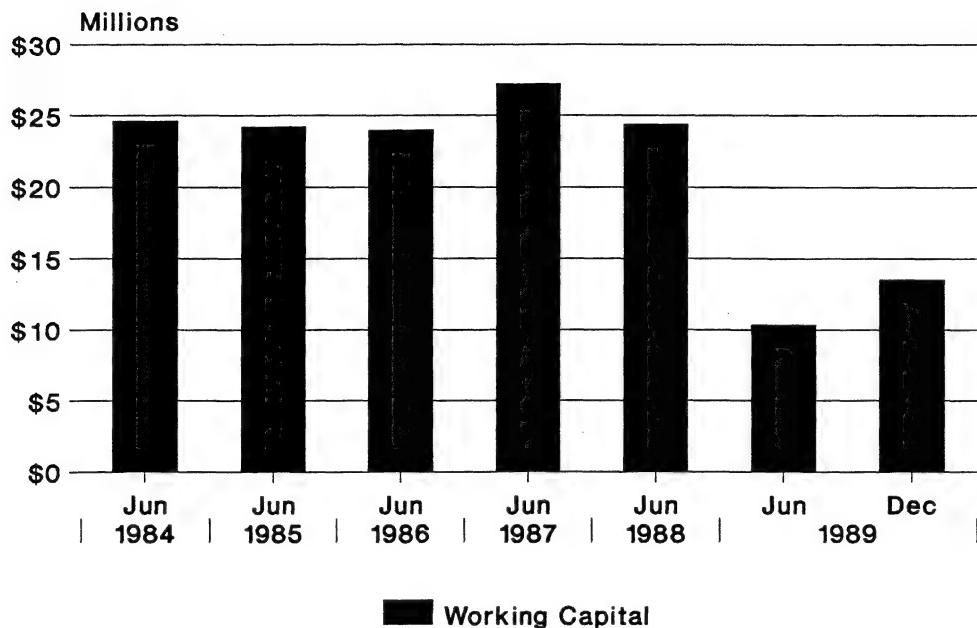
The district's subsidies have increased, in part, because of the district's receipt of Measure B funds. In our initial report, we noted that, to balance its budget, the district must increase its revenues and subsidies, reduce its expenses, or both. We recommended that the district negotiate an agreement with the Alameda County Transit Authority so that the district could receive its share of Measure B funds. Measure B authorizes the Alameda County Transportation Authority to impose a 0.5 percent retail transaction and use tax throughout the county for 15 years, a tax designated to improve, construct, maintain, and operate certain transportation projects in Alameda County. In fiscal year 1987-88, the district received \$5.95 million in Measure B funds, approximately 4.8 percent of the district's total revenues and subsidies. In fiscal year 1988-89, the district received \$6.37 million in Measure B funds, or 5.2 percent of its total revenues and subsidies for this period. For fiscal year 1989-90, the district projects that it will receive \$6.75 million in Measure B funds, 5.4 percent of the total projected revenues and subsidies.

Trends in the District's Working Capital

The district has funded its deficits with its working capital, which is the district's current assets minus its current liabilities and includes its cash and investments. Chart 3 shows the change in the district's working capital since fiscal year 1983-84.

CHART 3

**ALAMEDA-CONTRA COSTA TRANSIT DISTRICT
WORKING CAPITAL FOR THE PERIODS ENDING
JUNE 30, 1984 TO DECEMBER 31, 1989**



Source: Financial statements of the Alameda-Contra Costa Transit District

As the chart shows, the district's working capital was at \$24.6 million on June 30, 1984 (the end of fiscal year 1983-84), and had decreased to \$13.5 million as of December 31, 1989 (the end of the first six months of fiscal year 1989-90), a decrease of 45 percent.

The district has taken steps to increase its capital reserves. The district, in its original budget for fiscal year 1989-90, noted that it would use different methods to finance debt, such as revenue anticipation notes and certificates of participation, to help the district's cash flow and capital improvement plans. The district issued a request for proposals in May 1989 for the services of a financial advisor and an underwriter to implement the plan. In June 1989, the district selected two firms. In October 1989, the district's underwriter issued a series of revenue anticipation notes for the district. Revenue anticipation notes are a funding mechanism that provides a means of borrowing against future district revenues. Investors buy the notes and receive from the district both the initial investment and a set amount of interest. The district pays the notes with its "revenues, cash, income, and other monies lawfully available." In December 1989, the district's underwriter issued a series of certificates of participation. These certificates are a funding mechanism through which the district refinanced its current headquarters building and other facilities. As with the revenue anticipation notes, the district will pay investors their initial investment and interest from future district revenues.

The district's working capital of \$13.5 million as of December 31, 1989, is the equivalent of just over one month of district operating expenses. However, the district has postponed projects intended to improve the district's financial condition and has not taken any action to increase district revenues. As a result, the district still needs to take steps to improve its financial condition.

THE DISTRICT'S REVISED BUDGET
FOR FISCAL YEAR 1989-90

In January 1990, the district's general manager submitted a revised budget for fiscal year 1989-90. The revised budget projects that, if the district does not receive federal and state aid for earthquake costs, the district's projected total revenues and subsidies would be \$345,000 less than budgeted and expenses would be \$1.6 million more than budgeted, resulting in a possible deficit of \$1.9 million. The increases in expenses were due to the costs of the October 1989 earthquake, the costs of the implementation of a new union contract for drivers and maintenance workers, and cost overruns in maintenance and workers' compensation. (Appendix C shows a comparison of the district's actual revenues, subsidies, and expenses and the district's budget for the first six months of fiscal year 1989-90.)

District Cost-Cutting Measures

To balance its budget for fiscal year 1989-90, the district has noted in its January revision of the budget and in subsequent material provided to us that it plans to take several steps towards reducing district costs. Almost every unit within the district will absorb some budget cut as a result of the January revision of the budget for fiscal year 1989-90. The district is postponing programs, eliminating positions, and freezing vacant staff positions, but is not cutting bus service.

The district is postponing several programs. For example, the district is postponing its plan to audit the district's workers' compensation administrator. The district has also postponed its use of consultants and district staff for completing special projects. Further, as discussed on pages 22 and 23, the district avoided additional expenses when it postponed its comprehensive service plan.

In addition to postponing programs, the district plans to eliminate 12 positions. Further, the district has frozen 18 vacant staff positions for the remainder of the fiscal year. According to the district, it will realize only negligible savings for the employees who have been terminated or the staff positions that have been frozen in this fiscal year because the district will incur costs when eliminating the position, such as possible costs for severance pay. No bus drivers have been terminated as a result of the January revision of the budget. However, the district will eliminate road supervisor positions and will not fill vacant mechanic positions that had been added as part of the original budget for fiscal year 1989-90. We cannot assess what effect these personnel actions will have on district operations.

The district also plans other cost cuts in personnel, service expenses, materials and supplies, capital acquisitions, and travel and meeting expenses.

The Costs of the October 1989 Earthquake

On October 17, 1989, a major earthquake occurred in the San Francisco Bay Area. The earthquake resulted in widespread injuries and damage, destroying major sections of the Bay Area's freeway and bridge systems. The earthquake destroyed or severely damaged sections of the San Francisco-Oakland Bay Bridge (Bay Bridge), the Embarcadero Freeway (I-480), and the Cypress Viaduct (I-880); all of these major thoroughfares were closed as a result. It was estimated that thousands of Bay Area commuters were affected by these closures. While the district estimated that its facilities sustained less than \$100,000 in damage, the road closures and the consequent changes in commute patterns significantly affected the district's projections of its expenses.

As a result of the earthquake, the district provided additional services to affected commuters. It established "bus bridges" to transport commuters across the Golden Gate Bridge, Richmond-San Rafael Bridge, and San Mateo Bridge, supplementing its regular service with its reserve fleet of buses. Recognizing that extensive freeway damage was forcing Bay Area commuters to travel by alternative means, the district expanded its "feeder" service to San Francisco Bay Area Rapid Transit District (BART) stations and ferries, and it honored transit passes of other transit agencies. These actions added considerable expenses that were not part of the district's budget for fiscal year 1989-90.

According to a financial evaluation, dated December 5, 1989, that the district prepared for the Federal Emergency Management Agency (FEMA), the district added 469,215 extra revenue miles for the month following the earthquake. (The Bay Bridge reopened on November 17, 1989, one month after the earthquake.) The additional miles translate into an additional 37,537 revenue hours for this time period. The district calculated, for its claim for aid from FEMA, that this expanded service increased the district's expenses, which, even when offset by its added revenue from carrying new passengers, cost the district \$1.9 million more than anticipated for the month after the earthquake. The district's claim is for expenses through the reopening of the Bay Bridge when the district was able to reestablish trans-bay bus service.

On November 6, 1989, the governor signed legislation that increased the State's sales tax by 0.25 percent as of January 1, 1990. This 13-month increase in the tax will generate an estimated \$800 million for earthquake relief. The federal government has also approved earthquake relief funds.

The district began its attempts to obtain federal aid in November 1989, after the Bay Bridge had reopened. During this time frame, the district received \$225,000 in state and county emergency funds. But, according to the district, jurisdictional disputes between state and federal officials delayed the review of the district's claim to FEMA until March 2, 1990. The reviewer of the district's claim, who

is a representative of the California State Controller's Office, recommended that the claim be denied. The reviewer felt that the district's estimates of fares received were artificially low, that the district made compilation errors when calculating revenue hours, and that the district incorrectly included revenue hours for certain bus routes in the claim. The district does not know if or when it will receive any federal funds. Nevertheless, according to the district, state legislative efforts are being proposed to relieve agencies, such as the district, for operating losses sustained as a result of participation in regional emergency response efforts.

In the January revision of the district's budget, the general manager noted that if earthquake relief funds are not received or the district receives significantly less than what it requested, the district will have to make service and staffing cuts to absorb the earthquake costs.

Other Costs Associated With the Budget Revision

In addition to the costs associated with the October 1989 earthquake, the district had other expenses that were not anticipated in its original budget for fiscal year 1989-90. For example, as a result of a new union contract implemented after November 1, 1989, the district's wages and benefits increased. The district had included cost savings in its preparation of its original budget based on the

implementation of new work rules, such as a new sick-leave policy, as part of the new contract. The district's chief financial officer stated that any cost increases associated with the new contract would be offset by the cost savings. For instance, the new contract contains provisions that might allow the district to better control employee absenteeism. We had noted in previous monitoring reports that employee absenteeism was a major expense for the district. The district projects that the anticipated cost savings will not be realized in fiscal year 1989-90.

The district's efforts to better maintain district buses and to ensure better bus availability have resulted in higher than budgeted costs for materials and supplies, along with increased overtime wages. District efforts have focused on increasing miles between road calls (that is, bus failures that require attention from someone other than the bus driver while the buses are in service) and reducing the number of cancellations of scheduled bus routes.

Finally, the district's costs for workers' compensation have exceeded budget projections. The increase is due to a backlog of claims and higher reserve levels than projected. District staff are reviewing the methodology of the district's private claims administrator for setting reserve levels for claims. The district staff believe resetting the reserve levels will reduce the amount of money set aside for claims and so reduce expenses.

The District's Revenue Revisions

In its January revision of the budget for fiscal year 1989-90, the district changed its original estimates of revenues and subsidies. The district projects that its revenue from passenger fares will decrease from its original estimates because of the October 1989 earthquake. The district's subsidies are also projected to decrease. The largest decrease is in the district's subsidies from property taxes. The decrease is based on revisions in original estimates made by the counties that collect the property taxes. The district is also projected to receive less in federal operating assistance than was originally projected. These projected decreases are partially offset by other increases in interest income, income from the Metropolitan Transportation Commission (the district's local transportation planning agency), and Measure B funds. The net result is that the district's projection of revenues and subsidies decreased by \$345,000.

The District Needs To Improve Its Long-Term Financial Condition

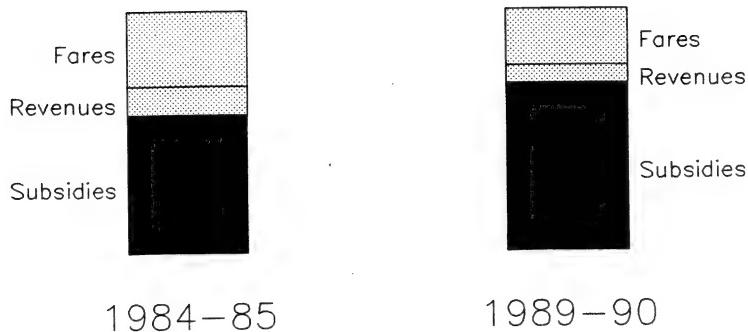
While the district is taking steps to reduce costs for fiscal year 1989-90, the district needs to consider taking other actions to improve the long-term financial condition of the district. These actions include increasing revenues, further decreasing costs without cutting bus service, or doing both to finance projects such as the comprehensive service plan. The district is postponing its comprehensive service plan because of unresolved environmental

concerns. The comprehensive service plan was intended, over the next five years, to restructure the district's bus routes. The district hoped that the plan would address the needs of current passengers by reducing waiting and travel time and, more importantly, that the plan would also attract new passengers. The district has a stated goal of increasing revenue from passenger fares through increased ridership, that is, increasing the number of passengers using district buses. Such an increase could contribute to the long-term improvement of the district's financial condition. According to the district's board of directors, the plan has been postponed until September 1990, after the end of our required quarterly monitoring reports.

Because the district cannot readily change the amount of subsidies it receives, one means the district should consider for increasing income is raising its revenues. Revenues include monies received as passenger fares and interest income and monies received for advertisements on buses. Raising passenger fares, because they are the largest component of revenues, would have the greatest effect on raising district revenues.

CHART 4

**ALAMEDA-CONTRA COSTA TRANSIT DISTRICT
CHANGES IN THE PROPORTIONS OF REVENUES AND SUBSIDIES,
INCLUDING REVENUE FROM PASSENGER FARES AND SUBSIDIES
FOR FISCAL YEARS 1984-85 AND 1989-90**



Source: Financial statements of the Alameda-Contra Costa Transit District and the January revision of the budget for fiscal year 1989-90.

^aProjected for fiscal year 1989-90.

Chart 4 shows the changes in the proportions of the district's income, that is, the district's revenues and subsidies. In fiscal year 1984-85, the district received 57 percent of its income from subsidies and 43 percent from revenues, of which revenue from passenger fares constituted 31 percent of all income. In contrast, the district projects that, in fiscal year 1989-90, subsidies will make up 69 percent of its income and revenues will have declined to 31 percent. This projection shows revenue from passenger fares

decreasing to only 23 percent of the district's total income. According to the district's board of directors, the district has not considered raising passenger fares in fiscal year 1989-90 because the district wants to consider fare increases at the same time as other transit agencies in the area. Nevertheless, without additional revenues or further cost cutting, the district cannot fund postponed programs such as the comprehensive service plan. According to the district's board of directors, the district will evaluate whether a fare increase is needed at the midpoint of fiscal year 1990-91. However, the board believes that it will be able to implement the comprehensive service plan in September 1990.

In response to questions we asked concerning the financial condition of the district, the president of the board of directors noted in her response to us that the district might have to adjust district service but would not cut service. In the district budget for fiscal year 1988-89, the district noted that any reductions in service would cause great harm to the district because of the commensurate reductions in revenues. The budget also stated that, in the long term, reductions in services create a downward spiral that leads to new cuts in service and a concomitant worsening of the district's financial condition.

To help ensure that the district would not suffer the downward spiral of reductions in service and revenues, the district, for fiscal year 1989-90, proposed a balanced budget. As part of the original

budget for fiscal year 1989-90, the district planned to implement the comprehensive service plan that, as noted on pages 22 and 23, would improve coverage of the district's service area and reduce travel time for passengers. Nevertheless, the district has postponed the implementation of the comprehensive service plan and has not increased passenger fares. Moreover, the amount of subsidies the district is projected to receive has decreased. Further, as cited previously, the district's working capital has decreased 45 percent since fiscal year 1983-84. Therefore, the district's financial condition does not appear to be improving.

CONCLUSION

The Alameda-Contra Costa Transit District has experienced deficits in three of the last five fiscal years, including a \$125,000 deficit for fiscal year 1988-89. Moreover, we found that the district's expenses have increased from fiscal year 1984-85 through fiscal year 1988-89, except for a slight decrease for fiscal year 1988-89. However, the rate of increase has diminished throughout that period. Although revenues and subsidies have generally increased since fiscal year 1984-85 (except for a slight decrease in fiscal year 1988-89), they have not grown at the same rate as expenses because the revenue from passenger fares has decreased. We also found that the district's working capital has decreased since fiscal year 1983-84. As of

December 31, 1989, the district's working capital was \$13.5 million, or the equivalent of just over one month of district operating expenses.

The district projects it will balance its budget for fiscal year 1989-90 if it receives \$1.9 million in federal and state aid for earthquake-related costs. However, almost all of the district's departments have had to absorb some part of the cuts the district has made in the attempt to balance its budget. In addition, the district postponed its comprehensive service plan, which is intended to restructure routes and improve the district's long-term financial condition. Further, the district plans to eliminate 12 positions and has frozen hiring. Therefore, it does not appear that the district's financial condition is improving. The actions the district took were the result of the costs of the October 1989 earthquake, the implementation of a new union contract, cost overruns for maintenance and workers' compensation, and a reduction in revenues and subsidies. In March 1990, the reviewer of the district's initial claim for federal earthquake assistance recommended that the claim be denied. It is not known if or when the district will receive federal or state aid to offset the \$1.9 million in earthquake costs. While the district has reduced costs to balance the budget, the district also needs to consider ways it can finance programs to improve the long-term financial condition of the district.

RECOMMENDATIONS

To improve its financial condition, the Alameda-Contra Costa Transit District should take the following actions:

- Implement its goal of developing a balanced budget for fiscal year 1989-90 and for future years;
- Continue its efforts to obtain state or federal aid for the expenses incurred as a result of the October 1989 earthquake; and
- Evaluate ways to finance programs, such as the comprehensive service plan, that are intended to increase district ridership and the district's revenues.

II

THE STATUS OF THE ALAMEDA-CONTRA COSTA TRANSIT DISTRICT'S IMPLEMENTATION OF OUR PREVIOUS RECOMMENDATIONS

The Alameda-Contra Costa Transit District (district) has implemented our recommendations concerning the improvement of its budgetary process. District staff are developing budget estimates of revenues, subsidies, and expenses that should be more reliable than in the past. Furthermore, the district is promptly and accurately reporting budget variances to district managers and to the district's board of directors. In addition, the district has received over \$12 million from its share of Measure B funds since we recommended that the district request its share of these funds. Finally, the district projected that it would have a balanced budget for fiscal year 1989-90 if it receives \$1.9 million in federal aid for the October 1989 earthquake.

The district has implemented our recommendations concerning the reimbursement of travel and personal expenses. The district has modified its policies and adopted new policies to include all of our recommended changes. Additionally, we found that the district has been in substantial compliance with its travel and personal expense policies. Finally, since our March 1988 report, the district has recovered all overpayments made to district directors.

Finally, the district has implemented the recommendations from our initial report and has prohibited its attorneys from the private practice of law. Moreover, the district has disseminated a policy that prohibits district staff from the use of district resources for nondistrict purposes.

THE STATUS OF THE RECOMMENDATIONS
CONCERNING BUDGETS

In our March 1988 report, we reported that the district had weaknesses in its budgeting process. Specifically, when we compared the actual amounts and budgeted amounts for the district's revenues, subsidies, and expenses, we found that the district generally overestimated its revenues and always underestimated its expenses. We also found that the district did not always have the records to show how it determined the amount that it budgeted for expenses. Without such records, the district's finance department, which should control expenses, does not have data on specific expenses that are authorized in the budget for the specific expense category and, thus, cannot control those expenses. Furthermore, we determined that the district's monthly budget variance reports did not accurately reflect monthly fluctuations in revenues, subsidies, and expenses throughout the fiscal year and were not submitted promptly to the board of directors.

Finally, we noted that, to balance its budget, the district must increase its revenues and subsidies, reduce its expenses, or both. We recommended that the district obtain its 11.617 percent share

of Measure B funds. Measure B authorizes the Alameda County Transportation Authority to impose a 0.5 percent retail transaction and use tax throughout the county for 15 years.

To ensure that the district resolved its fiscal problems, we recommended that the district take the following actions:

- Develop well-documented and reliable estimates of revenues, subsidies, and expenses that reflect historical fluctuations for each month of the fiscal year;
- Using these estimates, develop a balanced or a surplus budget for fiscal year 1988-1989;
- Maintain in the finance department all records that document the development of the budget so that the district can better control unbudgeted expenses;
- Develop and promptly submit to the board of directors accurate variance reports that identify the causes of significant budget variances;
- Take prompt corrective actions to remedy the causes of significant budget variances; and

- Promptly negotiate an agreement with the Alameda County Transportation Authority so that the district can receive its allocation of tax revenues from Measure B.

We reported in our previous quarterly monitoring reports that the district had developed budgets that, for revenues, subsidies, and expenses, fluctuate by month. We also determined that the district's budgets were better documented and contained estimates based on reasonable assumptions. For the district's original budget for fiscal year 1989-90, the district implemented our recommendation and developed a balanced budget in which the district's revenues and subsidies were projected to equal its expenses.

In addition, during this monitoring report and in previous reports, we found that the district has addressed our recommendations concerning budget variance reports. We determined that the district's budget office has developed and promptly distributes monthly budget variance reports for the district's board of directors and for district managers. We reviewed the accuracy of the district's budget variance reports and found that they were accurate.

Finally, on March 30, 1988, the district signed an agreement with the Alameda County Transportation Authority for the distribution of Measure B revenues. In fiscal year 1987-88, the district received \$5.95 million in Measure B funds; in fiscal year 1988-89, the district

received \$6.37 million in Measure B funds; for fiscal year 1989-90, the district projects that it will receive \$6.75 million in Measure B funds.

THE STATUS OF THE RECOMMENDATIONS
CONCERNING TRAVEL AND PERSONAL EXPENSES

In our March 1988 report, we reported that the district had weak controls over the travel and personal expenses of its board of directors and officers. We found that the district had failed to comply with board policy and sound internal accounting controls and may have violated state law in paying some expenses for directors and officers in 1986 and 1987. Furthermore, the district may have unlawfully loaned district funds to directors by purchasing airline tickets for their family members and allowing the directors to pay the district back. The district also may have unlawfully used district funds to pay for directors' attendance at political functions.

To resolve these deficiencies, we recommended that the district take the following actions:

- Require all members of the board of directors, district officers, and other district employees to read and abide by district policies regarding travel and personal expenses;

- Direct all personnel involved in the review, approval, and payment of travel and personal expenses to reject for payment

- any expense report that does not meet the requirements of state law, board policy, and sound internal controls;
- Modify its expense report to include an attestation statement by the claimant similar to that used by the State of California on its expense reports, and require the claimants to sign the reports;
 - Adopt a policy for district officers that defines the limits on district expenses incurred in Alameda, Contra Costa, and San Francisco counties;
 - Adopt policies that prohibit district officers from approving their own expense reports; prohibit the purchase of airline tickets or other items for anyone other than directors, officers, and employees; and prohibit the payment of public funds for political functions or political organizations; and
 - Recover all overpayments made to directors.

As we reported in our previous monitoring reports, the district has revised its rules governing travel and personal expenses and has adopted new board policies that address many of our recommendations. Specifically, the revised policies require appropriate approvals; limit the amount of travel expenses that can be incurred, including those incurred in the counties of Alameda,

Contra Costa, San Francisco, Marin, Santa Clara, and San Mateo; and prohibit the reimbursement of any expenses related to any political function organized to support or oppose a political party or political candidate. The board of directors also approved a policy that prohibits personal loans to district directors, officers, and employees. Further, since our first monitoring report, the district has modified its expense report to include an attestation by the claimant that he or she incurred the expense claimed while conducting district business. Finally, the district billed each director who had received an overpayment, and all have repaid the district.

In our second monitoring report, we reviewed all 48 expense reports for directors, a district officer, and employees for the period from October 1, 1988, to February 14, 1989. The 48 expense reports totaled \$24,877 in expenses. As part of this monitoring report, we reviewed all 94 expense reports for district directors and officers for the period from July 1, 1989, to December 31, 1989. The 94 expense reports totaled \$41,405 in expenses.

In both reviews, we found that the district substantially complied with its travel policies and rules. Specifically, expense reports had the appropriate approvals and signatures and adhered to limits on travel reimbursements in the counties of Alameda, Contra Costa, San Francisco, Marin, Santa Clara, and San Mateo. None of these expense reports involved personal loans or the use of

reimbursements for political purposes, and the payments of director fees and expense reimbursements were for amounts allowed by policy.

During our first review, we found a total of four claims with errors, but during our second review, we found no errors. The errors we found during the first review were isolated and did not show any consistent violations of district policies and rules. The errors totaled \$278 in overpayments out of a total of \$66,282 paid for the 142 expense reports. These overpayments amount to an error rate of less than one percent. In contrast, we reported in our March 1988 report that the district had a 45.3 percent error rate in paying travel and personal expense claims.

THE STATUS OF THE
RECOMMENDATIONS CONCERNING
THE USE OF DISTRICT RESOURCES

In our March 1988 report, we reported that, although not authorized by the district's board of directors, five of the six full-time, salaried attorneys employed by the district from calendar year 1985 through calendar year 1987 used district resources, including staff, equipment, and facilities, to conduct their private law practices. In addition, the district paid over \$1,200 for individual listings in the Oakland telephone books for five of the district's attorneys and for a combined listing in the books for three of the attorneys.

To resolve these deficiencies, we recommended that the district take the following actions:

- Develop and implement a policy on outside employment that prohibits any of the district's employees from using district resources for nondistrict business; and
- Inform employees of the district's policy on outside employment.

As we reported in our first quarterly monitoring review, the district has adopted a policy that prohibits all district directors, officers, and employees from using district resources for nondistrict business. Furthermore, as of May 1, 1988, all of the district's attorneys are prohibited from engaging in private law practice while employed by the district. All of the district's attorneys have signed their acknowledgment of the new policy. The district has removed its attorneys' listings from the district's listings in the telephone books.

We determined in previous monitoring reports and during this review that the district's attorneys appear to be adhering to the district's new policy. The acting attorney for the district told us that no new attorneys have joined the district but that, if a new attorney were hired, the new attorney would be required to sign an acknowledgment of the policy. We contacted the Alameda County Bar

Association and the superior courts for Alameda and Contra Costa counties to determine whether the district's attorneys were listed for private practice referrals. They are not.

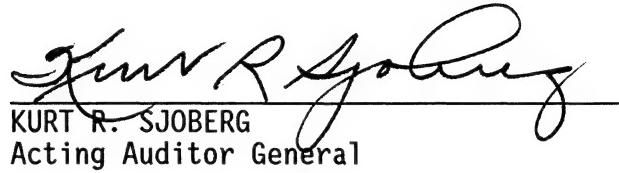
Furthermore, the district has disseminated its policy prohibiting the use of district resources for nondistrict purposes.

CONCLUSION

The Alameda-Contra Costa Transit District has developed budgets that are better documented and contain what should be more reliable estimates of revenues, subsidies, and expenses. The district projects it will have a balanced operating budget for fiscal year 1989-90 if it receives \$1.9 million in federal aid for the October 1989 earthquake. In addition, the district has implemented our recommendations regarding travel and personal expenses, and, based on our test of expense reports, the district is in substantial compliance with its rules and policies. Furthermore, all of the directors who owed the district for overpayments have repaid the district. Finally, the district's attorneys appear to be adhering to the district's policy prohibiting them from engaging in private law practice while employed by the district, and the district has informed all of its employees of its policy regarding the prohibition of the use of district resources for nondistrict purposes.

We conducted this review under the authority vested in the auditor general by Section 10500 et seq. of the California Government Code and according to generally accepted governmental auditing standards. We limited our review to those areas specified in the audit scope section of this report.

Respectfully submitted,



KURT R. SJÖBERG
Acting Auditor General

Date: April 2, 1990

Staff: Samuel D. Cochran, Audit Manager
Clifton John Curry
Jatin Shah, CPA
Todd R. Bland

APPENDIX A

**ALAMEDA-CONTRA COSTA TRANSIT DISTRICT
SUMMARY OF PREVIOUS MONITORING REPORTS**

Alameda-Contra Costa Transit District: First Quarterly Monitoring Report, January 5, 1989, Report P-861.1

In our first quarterly monitoring report, we noted that the Alameda-Contra Costa Transit District (district) had improved aspects of its budgeting process but that its budget for fiscal year 1988-89 contained a \$2.0 million deficit. Also, the district had revised its rules and added new policies that appear to better control the travel and personal expenses of its directors and district officers. Moreover, the district had recovered travel and personal expense overpayments from all but one of its directors. Finally, it had added new policies that prohibit employees from using district resources for nondistrict purposes, and it had prohibited its attorneys from engaging in private law practices while employed by the district.

Alameda-Contra Costa Transit District: Second Quarterly Monitoring Report, April 6, 1989, Report P-861.2

In our second monitoring report, we found that the district had developed a budget for fiscal year 1988-89 that is better documented and contained what should prove to be more reliable estimates of revenues, subsidies, and expenses. Nevertheless, the revised budget contained a \$2.5 million deficit. We determined that the district was substantially complying with its rules and policies for the travel and personal expenses of its directors, officers, and employees. Further, the district's attorneys appeared to be adhering to the policy prohibiting them from private law practice while employed by the district. We did, however, determine that the district had not fully disseminated its policy that prohibits employees from using district resources for nondistrict purposes.

Alameda-Contra Costa Transit District: Third Quarterly Monitoring Report, July 7, 1989, Report P-861.3

The third monitoring report showed that the district's revised budget for fiscal year 1988-89 appeared more accurate than district budgets of the past. We noted, however, that the district's system for reporting budget variances needed improvement. Moreover, the one director who still owed the district for travel and personal expense overpayments had agreed to repay the district. In addition, the district had disseminated its policy prohibiting the use of district resources for nondistrict purposes.

In this report, we also showed that the district had had operating deficits for three of the past five fiscal years. We explained that the district's expenses have increased at a faster rate than its revenues and subsidies and that the district's working capital and its cash and investments have generally decreased.

Alameda-Contra Costa Transit District: Fourth Quarterly Monitoring Report, October 4, 1989, Report P-861.4

In our fourth monitoring report, we showed that the district used the same improved budgeting process to develop its operating budget for fiscal year 1989-90 as it used to develop its operating budget for fiscal year 1988-89. The district's budget was balanced with operating revenues and subsidies of \$124.8 million equal to its operating expenses. Also, the district had improved the accuracy of its budget variance reports. Finally, the director who owed the district for travel and personal expense overpayments was repaying the district.

Alameda-Contra Costa Transit District: Fifth Quarterly Monitoring Report, December 20, 1989, Report P-861.5

In our fifth monitoring report, we reported that the district's projected revenues and subsidies for fiscal year 1989-90 would equal the district's expenses, resulting in a balanced budget of \$124.8 million. For the first three months of fiscal year 1989-90, the district's expenses were slightly less than its revenues and subsidies. Further, for the first three months ended September 30, 1989, the district's actual revenues, subsidies, and expenses were all within one percent of the budgeted amount.

However, on October 17, 1989, the San Francisco Bay Area was hit by a devastating earthquake. The San Francisco-Oakland Bay Bridge was severely damaged and was closed to thousands of daily commuters. As a result, the district substantially increased services and expected to incur significant costs.

APPENDIX B

**ALAMEDA-CONTRA COSTA TRANSIT DISTRICT
COMPARISON OF THE REVISED OPERATING BUDGET
FOR FISCAL YEAR 1989-90 WITH THE
ORIGINAL OPERATING BUDGET FOR FISCAL YEAR 1989-90**

	Revised 1989-90 Budget	Original 1989-90 Budget	Dollar Change	Percent Change
<u>REVENUES</u>				
Farebox	\$ 29,032,661	\$ 29,323,301	\$ (290,640)	(1.0)%
BART transfers	6,255,618	6,255,618	0	0.0
Contract service	0	0	0	0.0
Advertising	609,000	609,000	0	0.0
Interest income	1,750,000	1,266,667	483,333	38.2
Other income	<u>772,362</u>	<u>527,362</u>	<u>245,000</u>	46.5
Total Revenues	<u>38,419,641</u>	<u>37,981,948</u>	<u>437,693</u>	1.2
<u>SUBSIDIES</u>				
Property taxes	24,479,500	25,539,603	(1,060,103)	(4.2)
State Transit Assistance	361,078	361,078	0	0.0
Sales tax (AB 1107)	18,040,418	18,040,418	0	0.0
Sales tax (Transportation Development Act)	29,584,769	29,584,769	0	0.0
Federal Operating Assistance Section 9	6,764,292	6,827,626	(63,334)	(0.9)
Federal Operating Assistance Section 8	64,000	64,000	0	0.0
Measure B	<u>6,752,000</u>	<u>6,411,311</u>	<u>340,689</u>	5.3
Total Subsidies	<u>86,046,057</u>	<u>86,828,805</u>	<u>(782,748)</u>	(0.9)
Total Revenues and Subsidies	<u>124,465,698</u>	<u>124,810,753</u>	<u>(345,055)</u>	(0.3)
<u>EXPENSES</u>				
Salaries and wages	61,036,828	60,594,032	442,796	0.7
Fringe benefits	31,831,739	31,955,853	(124,114)	(0.4)
Services	9,265,338	8,625,376	639,962	7.4
Fuel and oil	4,923,558	4,923,558	0	0.0
Other materials and supplies	8,733,907	8,408,094	325,813	3.9
Insurance	3,653,421	3,670,000	(16,579)	(0.5)
Leases and rentals	611,691	635,950	(24,259)	(3.8)
Other expenses	<u>4,215,120</u>	<u>3,860,672</u>	<u>354,448</u>	9.2
Total Operating Expenses	<u>124,271,602</u>	<u>122,673,535</u>	<u>1,598,067</u>	1.3
Interest Expenses	2,137,218	2,137,218	0	0.0
Total Expenses	<u>126,408,820</u>	<u>124,810,753</u>	<u>\$1,598,067</u>	
Net Surplus (Deficit)	<u>\$ (1,943,122)</u>	<u>\$ 0</u>		

Source: Alameda-Contra Costa Transit District, revised budget for fiscal year 1989-90.

APPENDIX C

ALAMEDA-CONTRA COSTA TRANSIT DISTRICT
 COMPARISON OF ACTUAL REVENUES, SUBSIDIES,
 AND EXPENSES WITH THE BUDGET FOR THE
FIRST SIX MONTHS OF FISCAL YEAR 1989-90
 (UNAUDITED)

	<u>Actual</u>	<u>Budget</u>	<u>Variance Over (Under) Budget</u>	<u>Variance Percentage</u>
<u>REVENUES</u>				
Farebox	\$14,024,168	\$14,608,769	\$ (584,601)	(4.00)%
Other transfer fares	44,634	0	44,634	100.00
BART transfers	3,127,810	3,127,812	(2)	(0.00)
Advertising	302,500	304,500	(2,000)	(0.66)
Interest income	985,807	601,666	384,141	63.85
Other income	<u>122,368</u>	<u>263,682</u>	<u>(141,314)</u>	<u>(53.59)</u>
Total Revenues	<u>18,607,287</u>	<u>18,906,429</u>	<u>(299,142)</u>	<u>(1.58)</u>
<u>SUBSIDIES</u>				
Property taxes	12,769,800	12,769,800	0	0.00
State Transit Assistance	255,540	180,540	75,000	41.54
Sales tax (AB 1107)	9,020,208	9,020,208	0	0.00
Sales tax (Transportation Development Act)	14,792,206	14,792,382	(176)	(0.00)
Federal Operating Assistance Section 9	3,413,814	3,413,814	0	0.00
Federal Operating Assistance Section 8	31,998	31,998	0	0.00
Measure B	<u>3,205,656</u>	<u>3,205,656</u>	<u>0</u>	<u>0.00</u>
Total Subsidies	<u>43,489,222</u>	<u>43,414,398</u>	<u>74,824</u>	<u>0.17</u>
Total Revenues and Subsidies	<u>62,096,509</u>	<u>62,320,827</u>	<u>(224,318)</u>	<u>(0.36)</u>
<u>EXPENSES</u>				
Operator wages	17,652,691	17,350,921	301,770	1.74
Other wages	12,775,289	12,799,962	(24,673)	(0.19)
Fringe benefits	16,768,590	15,902,117	866,473	5.45
Services	4,068,653	4,226,561	(157,908)	(3.74)
Materials and supplies	7,031,116	6,573,389	457,727	6.96
Utilities	1,083,060	774,992	308,068	39.75
Insurance	1,731,074	1,828,254	(97,180)	(5.32)
Taxes	657,496	631,726	25,770	4.08
Leases and rentals	266,293	316,868	(50,575)	(15.96)
Other expenses	509,441	448,917	60,524	13.48
Interest expense	<u>801,398</u>	<u>968,610</u>	<u>(167,212)</u>	<u>(17.26)</u>
Total Operating Expenses	<u>63,345,101</u>	<u>61,822,317</u>	<u>1,522,784</u>	<u>2.46</u>
Net Surplus (Deficit)	<u>\$ (1,248,592)</u>	<u>\$ 498,510</u>	<u>\$ (1,747,102)</u>	<u>(350.46)</u>

Source: Alameda-Contra Costa Transit District, budget for fiscal year 1989-90.

March 27, 1990

Mr. Kurt R. Sjoberg
Acting Auditor General
660 J Street, Suite 300
Sacramento, CA 95814

Dear Mr. Sjoberg:

Thank you for allowing us to comment on your sixth quarterly monitoring report of the Alameda-Contra Costa Transit District (District). The District is pleased to note that the Auditor General continues to recognize that the District has continued to improve its administrative and financial operations by implementing the previous recommendations of the Auditor General.

As a result of the factors outlined in the report, including the October 1989 earthquake, the District projected a potential budget deficit if federal aid for earthquake-related costs was not received. The Board of Directors and the District management and staff took immediate action to balance the budget. The Auditor General has recognized the cost-cutting measures adapted by the District. However, the District recognizes the need for stable, long-term funding, and concurs with the Auditor General's recommendations to improve its financial condition.

The District will continue its efforts to develop a balanced budget for fiscal year 1989-90, and for future years. The District will also continue its ongoing efforts to be reimbursed for earthquake response costs. District staff have been working with the Metropolitan Transportation Commission, the State Controller's Office, and the Federal Emergency Management Agency to recalculate all its claims in the format desired by the Office of Emergency Services/State Controller's Office. The District will pursue all means with local, state, and federal authorities if the District's earthquake claims are not resolved within the near future.

The financial five year plan is currently being developed which will cover fiscal years 90/91 through 94/95. The plan will include full costing of all phases of the CSP and other vital programs. In the revised budget for 89/90, the Board took steps to reduce administrative costs to provide resources to fund the implementation costs of the CSP. The actions included reducing non essential programs, freezing of vacant positions, staff layoffs, and other cost containment measures. Other measures include a review of the District's use of staff resources to identify possible productivity improvements and the redirection of the remaining Flyer warranty funds to cover maintenance costs for other, newer buses.

Kurt R. Sjoberg
March 27, 1990
Page Two

The District has implemented and will continue to implement policies and procedures to address its many financial problems. In response to concerns regarding the District's ability to finance the implementation of the Comprehensive Service Plan and all other programs that are included in the District's SRTP, the Board has taken actions to increase revenues and reduce costs which have included some of the following:

- * Merchant participation in funding the downtown shuttle.
- * Issuance of Revenue Anticipation Notes (RANs).
- * Refinancing the Administration Building at a better rate.
- * Soliciting proposals for a revenue accountability/protection study (grant funded).
- * Soliciting proposals for advisory services to identify efficiencies in use of District properties and identify potential revenue sources through better utilization.
- * Filed an application with UMTA for a Maintenance Initiative program aimed at working with the private sector to more fully utilize our Central Maintenance Facility.

And in April, 1990, the District will be coordinating efforts to bring about a regional fare increase.

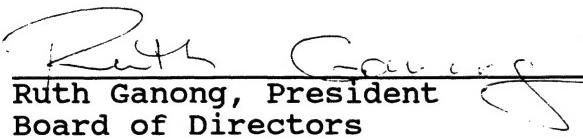
The Board of Directors will continue its responsibilities to develop and implement financial strategic planning to improve the District's financial condition. District staff are developing a long-term strategic financial action plan which will identify key avenues of funding, and detail the steps for District staff and the Board of Directors to pursue.

The District has improved its operations. It has successfully improved service to the public by reducing outlates and cancellations and increased miles between roadcalls which will result in improved service to the public and strengthen the

Kurt R. Sjoberg
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District's overall financial condition. The District will make every effort to continue to improve its operations and to improve essential transportation services for the people of the East Bay.

Sincerely,


Ruth Ganong
Ruth Ganong, President
Board of Directors


James L. O'Sullivan
James L. O'Sullivan
General Manager

cc: Members of the Legislature
Office of the Governor
Office of the Lieutenant Governor
State Controller
Legislative Analyst
Assembly Office of Research
Senate Office of Research
Assembly Majority/Minority Consultants
Senate Majority/Minority Consultants
Capitol Press Corps